

WHAT'S IT ALL ABOUT

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This is Agricultural Economics 541. The title "Cooperation in Agriculture" is somewhat misleading. Dr. Abrahamsen discusses the words cooperation and cooperative business enterprise on page two of your text. The OSU bulletin of course offerings goes on to state that in this course we will study the basic principles of cooperatives including types of organizations, legal aspects, membership relations, financing, organization and intercooperative problems and distribution of savings.

Most of us have had our academic training based on investor-oriented corporations, partnerships and sole proprietorships. In this course we are studying about a fourth way of doing business in our free competitive economy--the cooperative. I understand that there are in the Department of Agricultural Economics and Rural Sociology nine courses that devote at least ten percent of the course time to cooperatives. Two national studies on this question have been conducted and I can assure you that no other land-grant college in the United States comes close to this. Since most of you are seniors, one could assume that you know the three basic principles that differentiate cooperatives from other types of businesses or how farmers investment in cooperatives is the same as his investment in a tractor or any other tool. The pre-test you were given will serve as a guide to my class lectures.

Since no other land-grant college comes close to OSU in the amount of class time devoted to cooperatives, there are many examples where cooperative directors and employees trained in corporate law, corporate finance, corporate planning, etc., have attempted to direct and manage a cooperative the same as an investor-oriented business. Many of these sincere and well-meaning but misdirected efforts have resulted in disaster to the individuals and the cooperative because they were not in the right game, thus the unfavorable press and unfavorable attitude toward cooperatives by employees of IRS, SEC, Justice, and etc. Yes, cooperatives must be operated with many of the same management and business principles as other types of business but within the unique characteristics of cooperatives. Once the cooperative director, cooperative lawyer, cooperative financial officer understands which game he is playing he must know and understand the rules of the "co-op game."

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I would not be very successful playing tennis with a golf ball and baseball bat or playing golf with a tennis racket and a volleyball. The same goes for farmers who try to manage their cooperative as if it were not a cooperative.

There are many games played with a round ball; for example, baseball, softball, tennis, golf, basketball, handball, and volleyball. Each game has its own rules and goals and the player must know the rules if he plays the game. The same is true for managing an agricultural cooperative. Directors of cooperatives must not only know what a cooperative is but the rules underwhich it is to be operated (State Statute, Articles of Incorporation, Bylaws, Consent Decree, marketing or membership agreement).

For too many years the teaching of cooperative members, cooperative employees, high schools, colleges, and the public about cooperatives, what they are, how they can operate, and what they can and cannot do has been neglected. Too often, new employees of cooperatives have been given little or no instruction about cooperatives as a unique way of doing business in our competitive economy and often these employees because their academic training was based on investor type businesses do not know the unique characteristics of cooperatives and have attempted to direct and operate a cooperative the same as an investor type business. Many of these well-meaning but misdirected efforts have resulted in disaster to the individual and the farmers off-farm business, his cooperative, and thus, the unfavorable press and unfavorable attitude toward cooperatives by some employees of IRS, SEC, Justice, and other governmental agencies. Yes, cooperatives must be operated with many of the same management and business principles as other types of businesses but within the unique characteristics of cooperatives.

In this course, we will explore the sanctions that society has extended for farmers to join together to buy inputs and market agricultural outputs. We will also explore briefly techniques employed to motivate an unorganized and uneducated Agrarian society as we look at farmers organizations. Today's modern U. S. agriculture did not just happen. Courageous "change agents" using agricultural's most versatile tool--cooperatives--made it happen. This course is a major effort to train a cadre of leaders who can provide leadership previously provided by county agents and assist farmers to more effectively operate their cooperatives as tools of modern agriculture.

Your text will be Cooperative Business Enterprise by Dr. Martin A. Abrahamsen. There will also be some current papers by today's cooperative leaders and historical accounts of farmers' successful efforts to improve their standard of living. We will explore the roles of farmer organizations and how they differ from cooperatives. The financing of cooperatives, the legal phases, the family of cooperatives, and the taxation of cooperatives will all be explored.

You will be expected to keep abreast of current news about cooperatives and agriculture. You are expected to have read a newspaper such as the Columbus Dispatch, Columbus Citizen Journal, your hometown paper, Wall Street Journal, Barron's, etc.

Now for an overview of cooperatives as a tool of modern agriculture.

I see agricultural cooperatives as one of the many tools successful farmers have available and are using to assist them in efficiently producing and marketing food and fiber. To me the agricultural cooperative is comparable to the farm tractor, a tool of modern agriculture--each of the tools, the tractor and the co-op, requires skilled operators, sufficient energy to power it, good maintenance to be in top working condition, and of the size and versatility to effectively get the job done.

Many of our leading agricultural cooperatives started about 50 years ago in the days of the "Fordson" tractor. As the demands of agriculture outgrew the capabilities of the "Fordson," the demands farmers made on their cooperatives also brought about change in the appearance, size and usefulness of their off-farm business--their cooperative. Cooperatives like tractors have had to adjust and grow to remain effective tools for modern agriculture.

The old Fordson of the 1920's still has some of the basics found in today's modern farm tractor. They each have wheels, an engine, a transmission, a steering wheel, and a seat; but they are quite different in their appearance, size, power, adaptability and use as the engineers have designed the 1976 tractors to serve the needs of the farmers of 1976 and cooperative leaders have redesigned and built co-ops to meet today's needs. We still have the same basics in our 1976 agricultural cooperatives that we had 50 years ago, but like the tractor it has been necessary for agricultural cooperatives to adjust, change, and develop more market power and grow in order to be an effective tool for modern farmers. Agricultural cooperatives still maintain the basic principles of: democratic control, so that people rather than dollars control; limited interest on equity capital, so the savings of the cooperative will be returned to the user rather than the investor; and operation at cost, which means that farmer cooperatives price their services and/or products competitively and at the end of the business year if the cooperative has savings they will be refunded to those who patronize the cooperative, or if the cooperative has not charged enough margin to cover the costs of operation, the users will be asked to pay their share of the loss so that each year their cooperative breaks even.

The tools of modern agriculture are more effective and sophisticated than they were last year. Today's cooperatives and today's farm tractors require skilled operators. The operators of each tool must know its capabilities and how best to employ it. The farmer must keep his tractor and cooperative both in top performance condition if it is to serve him when he needs it.

The operators of the cooperative--the Board of Directors, the manager, and the employees--must know the capabilities and limitations of the cooperative if it is to effectively serve today's farmer. Like the tractor operator, they must be trained to perform their tasks in a responsible and productive manner.

Some farmers may prefer to farm without their cooperative as some farmers prefer to farm without a tractor. This may be because they have

never been taught how they can use their cooperative as a tool of modern agriculture to improve their net income. Often some farmers fail to realize that those who own the cooperative do not buy from or sell to THE cooperative but use the cooperative as a tool and sell through or purchase through THEIR cooperative. Farmers cannot afford to own a big modern tractor and let it sit in the shed while they hire their neighbor to plow for them--neither can they afford to treat their co-op as a spare and use it only 50 percent of the time.

To many farmers, the profit made on their inputs into their production operation and the profits made on the products after they leave the farm are an important part of their profit and net worth. These profits are called patronage refunds and for some farmers exceed their profits from production.

With this brief overview of farmer cooperatives as I see them, I hope I have given you some indication of my views of cooperatives. To me cooperatives are a part of the farmer's total production and marketing activities. Cooperatives have come of age. They are big business but still they are only the launching pad for "blasting off" to greater service for farmers and consumers.

I have directed my remarks to farmer cooperatives and agricultural cooperatives. I recognize that there are many non-agricultural cooperatives, such as Federal Savings and Loan Associations, mutual insurance companies, food and grocery cooperatives, housing cooperatives, and almost everything you can think of often has "cooperative" after it.

One of our problems in telling the cooperative story is that we do not have one set of organizational or operational procedures for cooperatives that is acceptable to all. I have elected to confine this course to agricultural cooperatives in an attempt to narrow the field of investigation and discussion. Within agricultural cooperatives there exists as you will see in this course, a wide range of philosophies and viewpoints. You may also observe that within a common type of agricultural cooperative, philosophies and viewpoints differ widely from one geographic area of the United States to another. Some of you will be familiar with Centralized cooperatives while others are knowledgeable of Federated cooperatives. Some of you will be familiar with stock cooperatives and others with non-stock cooperatives. Some of you will be experienced in cooperatives organized in a state like Pennsylvania^{1/} where the cooperative statute permits only one vote per member while others may be familiar with Kentucky cooperatives where one member of an agricultural cooperative may have as much as 49 percent of the controlling votes.^{2/} Make an effort in this course to learn as much about these different types of cooperatives as possible.

^{1/}Act of General Assembly No. 94, Section 14(a) Commonwealth of Pennsylvania.

^{2/}Kentucky Revised Statutes, Chapter 272, Agricultural Cooperative Association 272 and 201(4).

The study of cooperatives is to me most fascinating. Nearly every day, I discover something new about cooperatives. Cooperatives are people and as people differ one from another so do cooperatives differ. In Ohio, there are 28 Rural Electric Cooperatives, each differing from the other in some respect in their organization and financing; the same is true for the 70 county Landmarks and the 100 locals of Ohio Farmers and the 11 PCA's.

Some of you may have had some academic training in cooperatives. Others of you may not have any academic exposure to cooperatives and little experience with cooperatives. Some of you may have considerable member or work experience with a cooperative. If I were to ask each of you to write how a cooperative you are familiar with meets the three basic principles of cooperatives, what would you write? I'm certain that if we were to compile your reports, we would have a wide range of methods all of which would come under the three basic principles of cooperation. For example, how does your cooperative operate at cost? Does it pay a cash patronage refund? If your co-op pays a patronage refund, does it pay it to members only or does it also pay it to non-members and why? Or does your cooperative reduce the cost of insurance, electricity, or lower interest costs to absorb the savings? Does your co-op give its profit or savings to the University for research, scholarships, use it to finance social reform, to finance urban cooperatives, or use it to cure the popular disease called "social responsibility?" Or does your co-op pay taxes on its profits and keep what's left? What is a capital credit, a letter of advice, a certificate of indebtedness, etc.? These are questions farmers who own the cooperative you may work for expect you to be able to answer.

I hope that as we progress in this class that you establish your own viewpoints about cooperatives. To do so, you must research and study to select a set of cooperative principles that meet your requirements. This course, I hope, will help you build your own cooperative philosophy.

Cooperatives are a unique form of business that operates in our free competitive private enterprise system. Cooperatives are people. Cooperatives have historically played an important role in making new technology available to farmers such as artificial insemination, electricity, credit, balanced feed rations, etc. You will help determine the role they play in the future. You will be designing and building the cooperative to serve the needs of tomorrow's farmers.

No agricultural student, cooperative employee or cooperative leader of the past ever had opportunities of the same magnitude that each of you have today. Cooperative ventures that were only dreams of those who have gone before you are today's tools of modern agriculture. Today's cooperatives are the platforms from which your co-ops can "blast off" from into the future. You have the responsibility to chart the course necessary for today's cooperatives to meet the needs of tomorrow's farmers. On occasion a student says after reading the history of cooperatives, "Oh to have lived back in the '20's or '30's and had the opportunity to help build the Farm Credit System, the REC's, mutual insurance companies or marketing and supply cooperatives." My answer to such a statement is, "If you can't see the opportunities that are around you today, chances are you wouldn't have seen them if you had been living fifty years ago."

One of the goals of this course is to assist you in broadening your knowledge and understanding of cooperative principles, laws and regulations, finance and taxation that affects farmer cooperatives that operate in our competitive economy.

A second goal is for you to get to know about the cooperatives that the farmers of Ohio have built to serve their needs.

A third goal is to have you solve agricultural cooperative problems, in a real world setting, by applying principles and techniques taught in this class.

You will receive from this course benefits only in proportion to what you are willing to put into it. I trust the lectures and readings will challenge your thinking and cause you to ask questions. I charge you to raise questions, to challenge the speakers thinking as you increase your knowledge and understanding of cooperatives. I hope you get to know each other and work together to solve questions and plan for the future.

What's it all about? It's about our competitive capitalistic economy and how cooperatives fit into our economic system. It's about the people who are going to chart the future course of cooperatives. It's about cooperatives and YOU.